



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2009 Biennium

<b>Bill #</b>	HB0508	<b>Title:</b>	Revise wages definition to reduce unemployment ins. and work comp contributions
<b>Primary Sponsor:</b>	Rice, Diane	<b>Status:</b>	As Introduced

- |                                                           |                                                        |                                                          |
|-----------------------------------------------------------|--------------------------------------------------------|----------------------------------------------------------|
| <input type="checkbox"/> Significant Local Gov Impact     | <input type="checkbox"/> Needs to be included in HB 2  | <input checked="" type="checkbox"/> Technical Concerns   |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<b>Expenditures:</b>				
Unemployment Trust Fund	unknown	unknown	unknown	unknown
<b>Revenue:</b>				
Unemployment Trust Fund	unknown	unknown	unknown	unknown
<b>Net Impact-General Fund Balance:</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

### Description of Fiscal Impact:

Tips and gratuities received by an employee and reported to the employer would no longer be reported as wages to the unemployment insurance division. The fiscal impact of this legislation cannot be determined.

## FISCAL ANALYSIS

### Assumptions:

#### **Department of Labor and Industry**

1. If enacted, this legislation would reduce the amount of taxable wages reported by impacted employers and the amount of tax paid into the unemployment trust fund based on taxable wages. The unemployment insurance weekly benefit amounts received by impacted unemployed workers would also be reduced, due to removal of tips and gratuities from the employee's total wages.
2. The specific impact of this legislation can not be determined because tips and gratuities are not distinguished from other types of remuneration currently reported on an employer's quarterly unemployment insurance report.

**Technical Notes:**

1. The U.S. Department of Labor advises that this legislation does not create conformity issues with federal law. However, Internal Revenue Service regulations (IRS) require tips and gratuities (\$20 or more) to be reported as wages; therefore, Montana employers will have to pay taxes on different wage amounts – one report for the IRS includes wages plus tips and one for the Unemployment Insurance Division, reporting wages but excluding tips. Additional worksheet(s) or documentation would have to be prepared and/or retained that separates the two wage types (wages and tips) in order to properly compute the FUTA tax.
2. The Federal Unemployment Tax Act (FUTA) includes tips as reportable “wages.” In order to receive the full FUTA credit, an employer must pay state unemployment (SUTA) on all wages as defined by FUTA. Since this bill removes tips from the definition of “wages” for SUTA purposes, employers would have to separate tips from the rest of the remuneration paid to employees. Employers will pay full FUTA taxes on the tip amounts, but will pay the reduced FUTA amount on the SUTA wages.

---

*Sponsor's Initials*

---

*Date*

---

*Budget Director's Initials*

---

*Date*